

Formalizing Structures: Non-profit Status and Insurance Handout

Presenters: Bob and Suzanne Elliot - Rehoboth Contra Dance, Rehoboth MA
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Session Description:

Governance and administrative systems require routine updating as organizations evolve. In this session, three dance organizers will share how their dance committees manage governance structures and the systems that form the administrative and decision-making foundations for a dance. Some topics that we plan to cover include: the pluses and minuses of registering as a non-profit; how to get liability insurance; setting up your bank account; what are the bylaws or articles of incorporation; who is responsible for the dance? We'll share some issues that we are currently addressing at our dances to generate discussion, and open up the floor to any issues that you might be tackling in your own dance community.

Agenda:

1. Agenda Review
2. Introduction of the Presenter's Dance Committees
3. Incorporation with your State
4. Registering with the Federal Government as a Non-profit
5. Insurance Issues
6. Summary Points & Open Up for Discussion

Name of Dance	Incorporated with the state	General Liability Insurance	Officers and Directors Insurance			
Bay Area Country Dance Society, CA	X	X	X			
Belfast Flying Shoes, ME		X				
Brattleboro Dawn Dance Committee, VT		X				
Burlington Country Dancers, VT						
Contra Dance Umbrella, VT						
Country Dance New York, NY	X	X	X			
Eastern Square Dance, VT						
Friends of Traditional Dance, CO		X				
Monterey Country Dance Community, CA		X	X			
Muskeg Music, VT	X	X				
North End Studios, VT	X	X				
Portland Country Dance Community, OR	X	X	X			
Queen City Contra Dancers, NY		X				
Queen City Contras, VT	X	X				
Rehoboth Dance, MA	X	X				
Small Dance, NH		X				
The Friends of the Guiding Star Grange, MA		X				
Young Tradition, VT						

Resources:

- Your state's Secretary of State website for information on the requirements for incorporation as a Non-profit corporation. The Articles of Incorporation is a form that you'll complete, along with a filing fee.
- Tax Identification Number (TIN): call (800) 829-4933 to get one or check out IRS website. You'll need a TIN if you want to open a bank account in the name of your group and if you apply for non-profit status. Free!
- CDSS website or web for samples of By-Laws and requirements for 501 c 3 non-profit registration through CDSS. www.cdss.org
- www.irs.gov/charities for registering with federal government for non-profit status.
- CDSS or a local insurance broker for Group Liability Insurance
- Rehoboth Dance – **A GUIDE TO FORMING A NONPROFIT ORGANIZATION IN THE STATE OF MASSACHUSETTS** – available on Puttin on the Dance website or by contacting Suzanne Elliott at suzanne.suz.elliott@gmail.com.
- Rehoboth Dance – List of Job Descriptions includes a list of the annual financial paperwork required of 501 c 3 organizations.

1. Agenda Review & Introduction –

- 1.1. Organizations evolve and change over time and therefore require periodic adjustment to administrative and governance systems.
- 1.2. Today we'll share how two different dance organizations manage issues related to registering your group with your state, federal non-profit status, insurance, bank accounts and what are By-Laws and the Articles of Incorporation.
- 1.3. We plan to share some of the administrative issues that we are currently addressing and to open up the floor for a discussion on any admin related issues that you might be facing.

2. The Queen City Contra Dance –

Nancy joined the QCC organizing committee in 2003. This dance group has non-profit status and secures liability insurance through CDSS. We have By-Laws and hold 5 to 6 committee meetings a year and an annual meeting. Earlier this year, our Treasurer mailed in a deposit to the Queen City Contras bank account, and soon thereafter, the bank returned the checks that were made out to Queen City Contras. Since 9/11, laws were passed requiring organizations that open bank accounts to register the organization with the state prior to opening an account. Our bank finally discovered that we were not incorporated and refused to cash the checks. The QCC Treasurer (Brian Appleberry) conducted a fair amount of research to other dance groups asking who is incorporated with the state, and what kinds of insurance the organization carries. The chart (shown above) summarizing Brian's findings. After considering its options, the Committee has decided to register as a non-profit corporation, which will require that we change our name (to become QCC, Inc.) and adjust our by-laws to reflect these changes.

3. The Rehoboth Dance –

Bob and Suzanne have been involved with the Rehoboth Dance since it began nearly 30 years ago. There were a variety of informal arrangements for the first 20 years. In 2000, a tree fell on a car somewhere else in town at a public property. This led the owners of the dance hall to request that the Rehoboth Dance Organization acquire liability insurance. The Committee determined that incorporating as a non-profit and securing non-profit status directly through the IRS was the best way to become insurable. Other benefits have resulted from this initially annoying and time-consuming necessity. Since the dance is now in the hands of a committee instead of one or two super-dedicated individuals (who are on the committee) the long-term health of the dance seems more certain. A second major benefit of having non-profit status and insurance is a spin-off group (of almost all dancers), "The Sunday Night Jammers". They (we) get together to play weekly and host a free monthly community dance and where all would-be callers and musicians are welcome.

4. Incorporation with your State

- 4.1.** You can see on the chart that 7 of the 18 organizations are incorporated with their state as a non-profit corporation.
- 4.2.** Requirements vary from state to state and can be found on-line at your Secretary of State's website. Typically this isn't too hard to accomplish.
- 4.3.** In Vermont, we have two options for registering with the State. First, we can register as a "Non-profit Corporation". By registering as a Non-profit corporation, you create an entity that by law is responsible for the organization's business. The "Articles of Incorporation" is the name of the form that is required by most states to establish the organization as a non-profit corporation. It lists some number of leaders and members, describes your purpose and more... it must be filed with a fee.
- 4.4.** Alternatively, we can register our organization as having a "trade name" or "Doing Business As."
- 4.5.** Registering as a non-profit corporation requires more paperwork than the trade name registration, but adds an additional layer of liability protection. "Anyone can get sued by anyone else at any time", so lawyers like to say. By registering your organization as a non-profit corporation with your state, you create an entity that by law is responsible for the business. If the group isn't incorporated, anyone on the Committee or worse, any member of your group is exposed to liability. So what this means is that if you aren't incorporated, anyone on the organizing committee or any of your members could be named in a lawsuit and their personal assets are exposed. The likelihood of this is low, however, incorporating as a non-profit organization with the state is a relatively simple step to take and could be quite beneficial should there be a terrible situation. The QCC Dance Committee has just decided to do this for our group and after initially grimacing at the thought of having to give up our faith in the goodness of humanity; we decided it was a level of protection that was worth the effort.
- 4.6.** The Rehoboth group incorporated as the first step towards securing non-profit status. Their experience is written up in their guide to incorporating as a non-profit in the state of Massachusetts, which is included among the archive.
- 4.7.** Either form of incorporation – as a trade name or as a non-profit corporation will allow a group to open a bank account under the name of the organization. This means checks can be written to the group rather than to an individual.

5. Registering with the Federal Government as a Non-profit

- 5.1.** The benefits of registering as a 501 c 3 non-profit are that you can accept tax-deductible donations from individuals and foundations, and your group is exempt from sales tax. These are typically the main reasons that organizations seek to register

as a 501 c 3 non-profit. Other benefits are a more formalized governance structure that can support organizational sustainability.

- 5.2.** If your group decides to register as a non-profit, you can do it on your own, or as a traditional song or dance group you can apply to become a non-profit through CDSS – essentially piggy-backing off of their non-profit status.
- 5.3.** If you apply directly via the IRS, it can take many months to work through the process (many have heard of nightmare stories), it will cost approximately \$400 to \$850 in registration fees depending on the level of your annual income, and it is a really good idea to work with a lawyer who has non-profit experience so that you avoid any pitfalls. Annual financial reports are required.
- 5.4.** Registering with CDSS is considered more expedient, however over time, it could be more costly. The registration fee is \$125, then \$75 per year thereafter on top of annual membership dues of \$85. Annual financial reports are required.
- 5.5.** By-Laws are required by the IRS and CDSS. The By-laws are the rules that govern the internal management of the organization. They define who can be a member, who leads the organization, how those leaders are elected, when meetings are held, who can attend the meetings, how decisions are made, the mission statement and more! The By-Laws are not a static document – they should be dusted off and updated every now and then. CDSS provides samples of By-Laws on their website and a web search will lead you to many examples. There is a good on-line write-up (on the CDSS site) about two types of organizations: membership vs. non-membership groups. Both types of organizations are acceptable to CDSS and the IRS. The QCC might consider switching from a membership organization (where our members are the dancers who elect the Board) to a non-membership group (where the Board elects itself) given that it has to revise its by-laws.

6. Insurance Issues

You can see on the chart that 14 of 18 groups have Group Liability Insurance, and four groups have Officers and Directors Insurance. We'd like to provide a quick summary of the "exposure" we have as dance organizers and what insurance is meant to cover.

- 6.1.** We are exposed to personal injury. Someone could get hurt coming in to the building. Someone could get hurt during a dance. Liability insurance typically covers these sorts of injuries. Often dance organizers find that their dance hall requires that the group carries liability insurance and that the policy specifically lists the hall as a "named insured". Group Liability Insurance through CDSS is available – they have two options: 1) by-the-event coverage (\$55/ event) and 2) by-the-year coverage (\$430/ year).
- 6.2.** Officers and Directors Insurance covers "business to business damage" and "contract damages." If a decision made by the organizing committee were to "interfere" with someone else's success, you could get sued. So for example, let's say the group decides to hold a dance, hires a band and the dance is a disaster and the band believes that

their reputation was harmed... you could get sued by the band. This insurance costs in the range of \$750 per year and is considered by most groups to be too expensive.

- 6.3.** Discussion: It was noted that more groups might sign up for Directors and Officers insurance if it was affordable. If the group does not purchase it, individuals can seek a rider on their own homeowners insurance that is relatively affordable as an additional level of protection. We wondered if CDSS could facilitate the type of insurance? And there were unanswered questions if CDSS liability insurance covers performers, or if it works for the sorts of organizations that are structured to have sub-organizations.

7. Puttin it altogether: a summary of the steps to take to get 501 c3 status.

- 7.1.** Incorporate with your state.
- 7.2.** Get an EIN (Employer Identification Number) from the federal gov't.
- 7.3.** Recruit a Board, determine mission and vision and governance practices and write them up in by-laws.
- 7.4.** File the paperwork with the IRS or CDSS.
- 7.5.** Annual reports are required – possibly to your state, CDSS and the IRS. See archives for a list from the Rehoboth dance covering annual paperwork.
- 7.6.** See the Rehoboth write up for a step by step summary of what it took for them to register with the IRS in 2000.